

VZCZCXRO2685
PP RUEHIK RUEHPOD RUEHPW RUEHYG
DE RUEHBUL #1581/01 1771050
ZNR UUUUU ZZH
P 251050Z JUN 08
FM AMEMBASSY KABUL
TO RUEHC/SECSTATE WASHDC PRIORITY 4491
INFO RUCNAFG/AFGHANISTAN COLLECTIVE
RUEHZG/NATO EU COLLECTIVE
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SUBJECT: Afghan-Tajik Electric Power PPA Negotiations Short Circuited.

11. (SBU) Summary: Unexpectedly, when the Afghan Minister of Energy and Water Ismail Khan arrived in Dushanbe June 20 to sign the Afghan-Tajik Power Purchase Agreement (PPA), a component part of Afghanistan's North East Power System (NEPS) project, he insisted on a lower electricity purchase price than had previously been discussed. Both sides were unable to agree on a price and discussions were discontinued. Despite this setback, the Afghans believe the Tajiks remain committed to the conclusion of a PPA. The Embassy will urge the Afghans to reschedule a new negotiating session soon to finalize a price and sign the PPA. End Summary.

12. (SBU) On June 18, an Afghan negotiating team lead by Advisor to the Minister of Energy and Water (MEW) Ghulam Rabbani, traveled to Dushanbe, Tajikistan for "final" PPA negotiations. All technical issues arising from the last negotiating session in April 2008 were resolved on June 18 and 19. MEW Minister Khan arrived in Dushanbe on June 20, to finalize the energy import price and sign the PPA contract with the Tajik Minister of Energy.

13. (SBU) Prior to June 20, the Afghans had seemingly accepted the Tajiks' electricity price offer of USD 0.035 (3.5 cents) per kilowatt hour starting from May 2010 (the start of the summer hydropower season) with an annual two percent increase over the 5 years of the PPA's duration. This price would reflect the current cost of power generated at the Sangtuda power plant and builds in the cost of construction of new transmission lines from Tajikistan to the Afghan border. On June 8, USAID's contractors advising MEW on this PPA included this 3.5 cent price in a revised English PPA draft that was submitted to DABM, the Afghan power utility, for distribution to President Karzai and his Cabinet.

14. (SBU) Upon Minister Khan's arrival in Dushanbe the morning of June 20, the only outstanding item of discussion was the final energy price in the PPA. Unexpectedly, Minister Khan insisted that the price should be reduced from 3.5 cents per kilowatt hour to USD 0.02 (2 cents). Under a long-standing agreement with Afghanistan,

the Tajik utility charges two cents per kilowatt hour for the minimal amount of electricity it export to the Kunduz region in northern Afghanistan. (However, this arrangement is rather casual, as illustrated during the 2007-2008 winter when, due to their own power shortage, the Tajiks suspended power export to Kunduz on several occasions.) Despite several hours of negotiations in which a variety of alternatives were presented, the parties concluded that the PPA could not be signed as planned and the press conference called to publicized the signing ceremony was cancelled. Minister Khan returned to Kabul the next day.

15. (SBU) Comment: The Afghans believe the Tajiks are still interested in concluding a PPA. Tajikistan has several energy-related projects requiring international financing and a 20-year PPA with Afghanistan illustrates their commitment to finding paying clients for their power. Tajikistan's leaders, including its President, have publicly committed to this deal.

16. (SBU) Of the potential power exporters to Afghanistan, Tajikistan, Uzbekistan and Turkmenistan, the Tajiks have been the friendliest and most accommodating of the three. Delaying a successful conclusion of these talks may weaken Afghanistan's negotiating position with Uzbekistan and Turkmenistan by implying that Afghanistan is an unreliable partner. USAID consultants, who have been an integral part of the negotiations' success prior to June 20, have begun working on a variety of projections and pricing alternatives. These will be presented to MEW Minister Khan and his negotiating team shortly. The Embassy is reaching out to the Ministry of Energy and Water and the Ministry of Economy to underscore this reliability point as well as to urge a return to the negotiating table as soon as possible. End Comment.

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